ANNUAL REPORT 2001

cinram

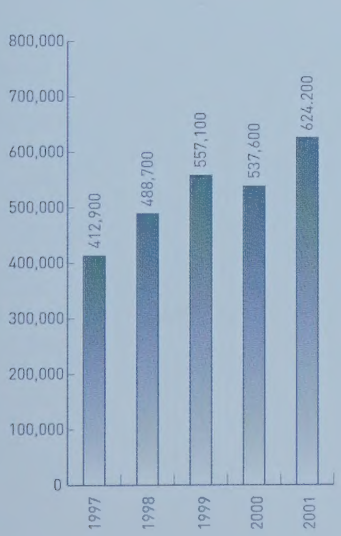
2001 HAS PROVEN TO BE A VERY POSITIVE YEAR FOR CINRAM.

FINANCIAL HIGHLIGHTS

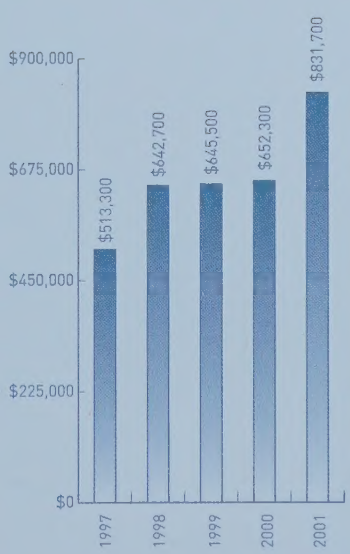
(Stated in thousands of Canadian dollars, except share and per share amounts)

Two years ended December 31,	2001	2000	% change
Income Statement			
Net sales	**$ 831,723**	$ 652,281	28%
Gross profit	**121,043**	103,578	17%
Earnings before amortization, interest expense, investment income, unusual items and income taxes	**104,517**	74,199	41%
Earnings before unusual items and income taxes	**32,424**	14,918	117%
Balance Sheet			
Cash, cash equivalents and marketable securities	**91,879**	127,222	(28%)
Bank operating loans and long-term debt	**49,473**	126,737	(61%)
Capital expenditures	**80,341**	97,624	(18%)
Working capital	**121,432**	95,588	27%
Shareholders' equity	**398,599**	363,281	10%
Net earnings (loss) per share			
Basic	**$ 0.43**	$ (0.51)	n/a
Diluted	**$ 0.43**	$ (0.51)	n/a
Diluted average number of shares outstanding	**54,942**	55,609	(1%)

Total-Pre-recorded Multimedia Unit Sales
(in thousands)



Net Sales
(in $ thousands)



Cash Flow from Operations
(in $ thousands)

LETTER TO SHAREHOLDERS

2001 HAS PROVEN TO BE A VERY POSITIVE YEAR FOR CINRAM. THE COMPANY HAS BEGUN TO REAP THE BENEFITS OF SIGNIFICANT INVESTMENTS MADE BY THE COMPANY OVER THE LAST FEW YEARS. THE COMBINED DVD AND VIDEO CASSETTE REVENUE GREW SIGNIFICANTLY IN NORTH AMERICA IN 2001, UP BY OVER 90% – A RESULT OF INCREASED BUSINESS ASSOCIATED WITH NEW CONTRACTS, COMBINED WITH THE RAPIDLY GROWING CONSUMER ACCEPTANCE FOR DVD.

Our strategy of investing in physical distribution systems and facilities has been successful, providing further value to our customers and increasing our competitiveness. The perception in the marketplace that electronic delivery, through legitimate or illegal downloading, would quickly replace physical product and its distribution channels is being pushed further into the future. In fact, the requirement for secure, efficient and competitive physical distribution services is stronger than ever. Our distribution services capability is now one of our key competitive advantages.

In the United States, our state-of-the-art Huntsville, Alabama site has expanded to a 1.2 million square foot facility capable of handling the increased DVD and VHS volumes and distribution services required for our U.S. customers.

In 2001, the Company began to realize the benefits of these investments and strategies and the resulting improved financial performance has validated those investments and strategies.

As part of the Company's restructuring program initiated about three years ago, the California facility ceased operations during the spring of 2001. With the closure, the Company relocated all CD capacity from California to our Indiana facility and shifted all DVD production to Huntsville, Alabama, the site of the distribution facility.

While 2001 was a banner year for Cinram's home video sales, which include DVD and VHS video cassette, it was another off year for major music and computer software releases in North America and Europe. Accordingly, Cinram's audio CD sales declined across all regions, except for France.

Furthermore, CD-ROM revenue, which decreased 29% in 2001 from 2000, continues to be negatively impacted by the rise in downloadable update versions of software via the Internet, and by the collapse of Internet Service Provider businesses, which for the last number of years represented a significant volume in CD-ROM sales.

STRONG FINANCIAL PERFORMANCE

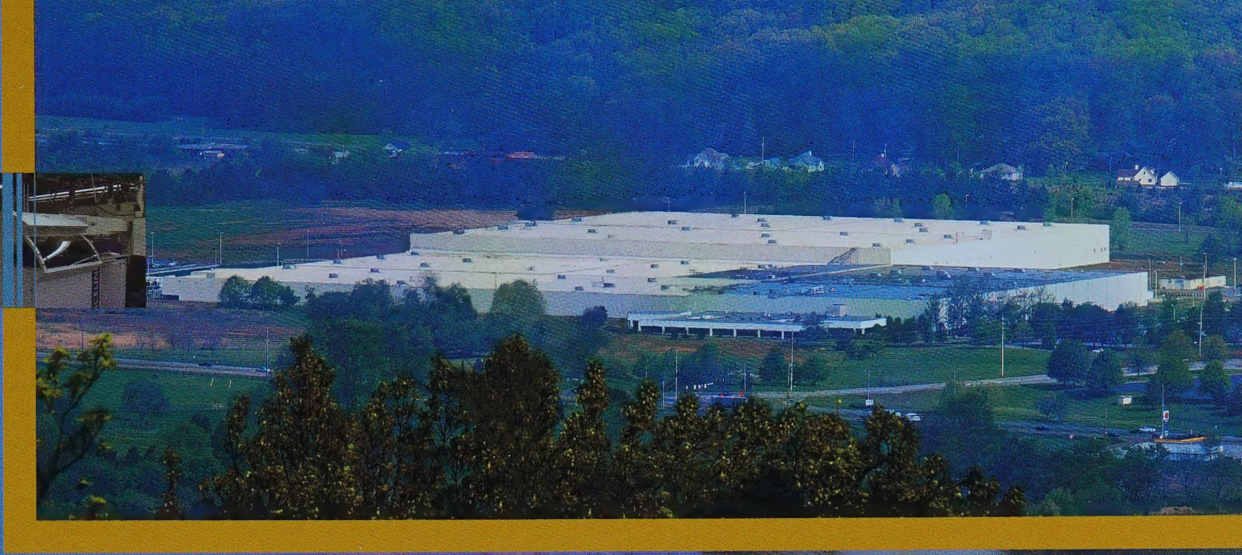
The Company's financial performance in 2001 improved significantly. Consolidated sales rose to \$832 million in 2001, up from \$652 million a year ago, with the growth coming from increased DVD and video cassette sales, combined with CD revenues from Europe. Earnings before interest expense, investment income, unusual items and income taxes were \$38 million in 2001, compared to \$16 million in 2000. Net earnings (loss) per share were \$0.43 in 2001, compared to \$(0.51) in 2000.

The Company enters 2002 with a healthy balance sheet. Cinram's cash surplus, which consists of cash and cash equivalents less bank operating loans and long-term debt, was \$42 million at the end of 2001, as compared to less than \$1 million at the end of 2000. Late in 2001, equipment additions in Huntsville, Alabama were financed through an asset backed loan agreement. The Company believes asset backed financing allows for capacity expansion while not depleting cash reserves. In 2002, Cinram anticipates the positive cash flow generated from operations will assist in building the company's cash surplus position.

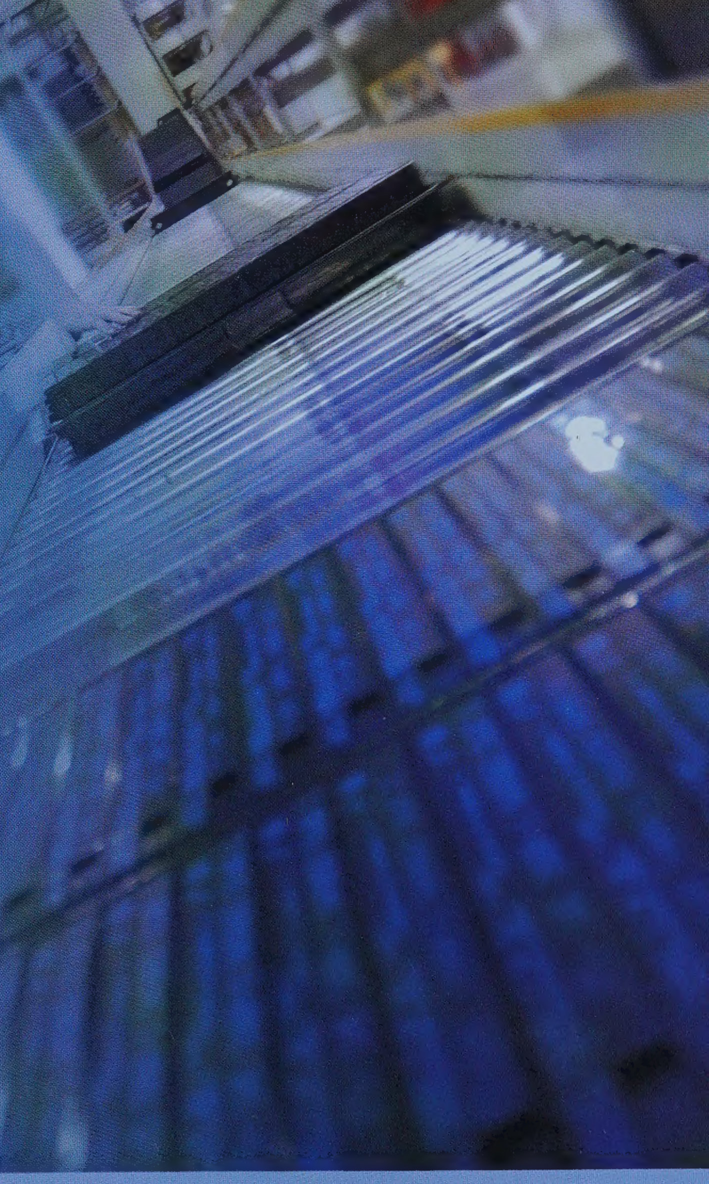
CAPITALIZING ON OPPORTUNITY

As this industry constantly adapts and evolves, new product formats are introduced as technology becomes more sophisticated. The high growth rate for DVD and distribution related services combined with Cinram's investment in these areas position us well to gain significant revenue. Cinram plans to expand in 2002 by bidding aggressively on new DVD business and making strategic acquisitions, should beneficial opportunities present themselves.

Cinram's strategy continues to be as an active player at the forefront of the entertainment industry evolution. As product technology evolves, the Company hopes to adapt and leverage its long history of success from change across the multiple media formats and distribution methods. To illustrate, given DVD's significant growth curve, Cinram is poised to leverage its enviable position in the marketplace as one of only four international replicators who supply approximately 90% of the North American and European DVD market.



THE STATE-OF-THE-ART HUNTSVILLE, ALABAMA FACILITY HAS GROWN TO BECOME A 1.2 MILLION SQUARE FOOT PLANT BUILT TO HANDLE THE INCREASED DVD AND VHS VOLUME



OUTLOOK

In 1997, DVD did not appear in Cinram's product mix and by 2001, DVD represented 16% of consolidated revenue. The demand for DVDs is growing faster than our expectations and this has caused us to increase our 2002 capital expenditure budget for DVDs. The Company believes product changes will continue, and Cinram has positioned itself for the foreseeable future by maintaining its existing partnership agreements with clients and by further understanding and supporting their needs. In April 2002, Cinram signed an exclusive, long-term DVD supply agreement with another Hollywood studio. Initial projections indicate that Cinram will generate revenues of approximately $175 million from this customer.

Finally, I would like to take this opportunity to once again thank the hard working Cinram employees from the many countries we operate in. Your contribution and commitment to making Cinram a leading international multimedia provider is clearly succeeding and will continue to do so for the foreseeable future. I would also like to thank our valued customers and shareholders for their patience and confidence in Cinram. We believe that even more opportunities lie ahead and we look forward to capitalizing on them.

Isidore Philosophe
Chairman and Chief Executive Officer

DVD TAKES NORTH AMERICA BY STORM

In 2001, DVD players began outselling VCRs with an estimated 24 million American households now having a DVD player. According to investment bank Morgan Stanley, 2002 is the year when the DVD format is forecast to begin outselling VHS.

This growth in DVD was a key driver of Cinram's return from flat revenue performance in 2000. DVD revenue in North America soared 257% to $129 million in 2001, and is expected to continue to grow at a rapid pace.

DVD entertainment represents the fastest growing opportunity for the Company, and Cinram will continue to seek new business opportunities in the form of acquisitions and exclusive supply agreements to increase DVD market share and expand related markets such as distribution. Cinram has positioned itself to accommodate higher demand for shipments in 2002 by increasing DVD and distribution capacity at both its Huntsville and Toronto facilities.

Even with the impressive growth of DVD in 2001, VHS volumes remained strong. VHS revenue in North America grew to $195 million in 2001, up from $133 million in the prior year, with the increase resulting from recently acquired VHS video cassette contracts. Although DVD players outsold VCRs in 2001, VCR sales were still robust and the VHS life cycle should extend for a number of years.

In North America, Cinram's revenue from the Audio/ROM segment, which includes audio CD, CD-ROM and audio cassette, decreased to $205 million in 2001, down from $271 million in 2000.

Our joint venture operation in Mexico continues to perform in line with expectations. This facility has a broad product offering for Latin American customers, including audio CD, audio cassette, CD-ROM, VHS video cassette and distribution services. The Company anticipates adding DVD replication capacity when demand for this product warrants. During the year, distribution capabilities were enhanced to meet the growing needs of our major customers.

OPPORTUNITY IN EUROPE

Further to our corporate strategy of improving product balance in Europe, Cinram signed an agreement in November 2000 with a major music label in France. The agreement involved the acquisition of a modern optical disc facility in Louviers, France and an exclusive supply agreement. The CD volume resulting from the supply agreement has helped balance the revenue streams for Europe. By having a long-term customer with a substantial volume base and a large facility, the Company is now positioned to respond to DVD opportunities in the European market.

In the challenging European marketplace, Cinram achieved positive results from the Company's recently acquired assets and corporate streamlining initiatives. The heavy reliance on video sales that has historically typified the region has been diminished given the acquired CD base.

Revenue in Europe was $239 million in 2001, up considerably from $170 million in the prior year, primarily driven by the acquisition of the CD plant in Louviers. Accordingly, the Audio/ROM segment accounted for 35% of revenue in Europe while the Home Video segment accounted for 59% of revenue in 2001, as compared to 81% of revenues in the prior year.

In 2001, the Company invested in DVD capacity and centralized its CD and DVD manufacturing in Louviers. Most of Europe's CD and DVD requirements can now be effectively and competitively serviced from this modern facility. Cinram shipped 1.5 million DVDs in 2001, most of which were for France and Germany, and to a lesser degree the U.K. Cinram's strategy now focuses on aggressively soliciting DVD contracts in all European regions during 2002.

Despite the challenging competitive climate, Cinram believes that its value added, end-to-end distribution solutions that accompany manufacturing will play a significant role in expanding Cinram's European DVD business.

While the Company is optimistic about future DVD growth prospects for Europe, Cinram remains committed to maintaining its strong VHS presence in this region in the coming years, while pursuing the possibility of opening new markets in Northern Europe.

NORTH AMERICA SPENT MORE MONEY ON HOME VIDEO (EITHER DVD OR VIDEO CASSETTE) THAN ANY OTHER FORM OF ENTERTAINMENT IN 2001.

Strong DVD growth placed total home video revenue ($16.8 billion) at nearly three times video game sales ($6.4 billion) and more than music CDs ($11.2 billion) and books ($16.5 billion).

– Medialine News, 2002

Entertainment Spending in 2001
(in U.S. $ billions)

PRODUCT HIGHLIGHTS

▪ HOME VIDEO SEGMENT

In 2001, revenue from Cinram's Home Video segment, which includes DVDs and VHS video cassettes, increased to $478 million from $317 million in 2000. DVD revenue contributed $133 million in 2001, well up from $38 million in 2000, representing the largest increase in revenue for a single product line. VHS video cassette revenue contributed $345 million in 2001, compared to $279 million in the prior year.

While the DVD market enjoys tremendous growth, VHS remains a strong business for Cinram. The Company believes that the VHS market will continue to perform steadily since the VCR penetration rate remains very high.

In the United States, 90 million households have at least one VCR and lower prices for the VCR player make it a popular and practical medium. However, the future growth is DVD and people are beginning to replace their VHS libraries with DVDs. Currently, one in four American households has a DVD player. The demand for higher quality delivery media, partially driven by the increasing numbers of consumer home theatre setups, is driving DVD sales, and vice versa.

Although video sales across the industry reflected a relatively flat year for hit movie titles in 2001, Cinram remains poised to leverage its penetration in the VHS and DVD markets for 2002, which promises a better schedule of blockbuster titles.

AUDIO/ROM SEGMENT

In 2001, consolidated revenue from the Audio/ROM segment, decreased to $288 million, down from $312 million in the prior year.

Music CD shipments are dependent on the strength of the release schedule for the year, and 2001 did not have many major music releases. Consolidated music CD sales increased to $187 million, up from $184 million in the prior year. However, excluding the outsourcing agreement in France, audio CD sales were $137 million in 2001, as compared to $176 million for the prior year. According to recent statistics, during the fall of 2001 the music industry's revenues and unit sales declined. The Company believes that as more music labels seek outsourcing arrangements with independent replicators such as Cinram, this represents significant growth opportunities.

2001 CD-ROM sales fell below expectation, dropping to $54 million, down from $76 million in 2000. CD-ROM revenue continues to drop considerably as software programs become more available as a download from the Internet. This, combined with the dramatic decrease in demand from the Internet Service Provider (ISP) market, leads to lower volumes, since most consumers have chosen an ISP and tend not to change suppliers easily.

As expected, audio cassette sales continued to drop in 2001. Sales were $47 million, compared to $52 million in 2000. In both Europe and North America, Cinram was able to increase market share through key outsourcing agreements with manufacturers who can no longer justify manufacturing audio cassettes as part of their business. It is our size and scale of audio cassette operations that allow us to compete.

DISTRIBUTION SERVICES

Distribution services revenue (included in "Other Segment"), comprises warehousing and logistic services and reached $42 million in 2001, as compared to $17 million in 2000. The Company anticipates that distribution related revenues will remain a significant component of revenue as the Company enhances its "one-stop shop" for major customers.

The Company believes it has the best logistics system in the industry, and this will continue to be a key driver of business, as well as a major influence in its ability to secure new major contracts. Cinram has invested millions of dollars in both automated equipment and IT resources to continually improve distribution capabilities.

Cinram offers customers what the Company refers to as the 'Virtual Factory' whereby customers have control and total visibility of the manufacturing and distribution process without ever having to actually touch the product. This is accomplished by way of a real-time, on line information system utilizing the latest state-of-the-art information technology.

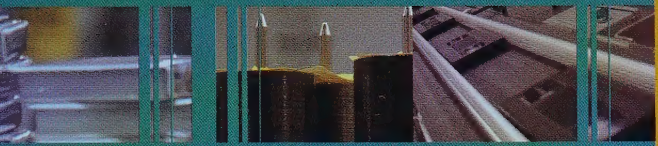
CAPITAL EXPENDITURES

Cinram now operates 11 major facilities - six in North America and five in Europe. The Company invested approximately $80 million in capital assets in 2001 for projects that included the completion of the building expansion in Huntsville, Alabama combined with increasing DVD capacity in North America and Europe to accommodate the new demand for DVD volumes from existing and potential customer supply agreements. Distribution automation equipment was also added in Europe to meet the demands of a new major distribution customer in France.

Due to the heavier than anticipated DVD demand, the Company's capital expenditure forecasts have increased to $50 million for 2002, focused mainly on the installation of DVD capacity in all regions combined with the addition of more automated distribution equipment at the Huntsville facility. These capital investments illustrate our continued confidence that the demand for our products and services will continue to grow over the next few years.

E-COMMERCE AND THE INTERNET

The Company maintains its belief that the Internet, while a strong medium of communication and an important factor in its global IT systems, still represents a small proportion of entertainment delivery to the consumer. Cinram's view is that the Internet is a factor in the delivery of content to the consumer, but significant growth will be further in the future and will have less impact in the short to medium term than previously anticipated. Nevertheless, should feasible Internet opportunities arise, the Company is poised to explore alternatives that will complement the existing products and services currently provided.



WHILE THE DVD MARKET ENJOYS TREMENDOUS GROWTH, VHS REMAINS A STRONG BUSINESS FOR CINRAM.

YEARS TAKEN TO REACH 30 MILLION PLAYERS SHIPPED:

FORMAT	YEARS
VCR	13 YEARS
CD	8 YEARS
DVD	5 YEARS

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001.

Certain statements contained in the following Management's Discussion and Analysis of Financial Condition of Operations, including without limitation to, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risk and uncertainties which could cause actual results to differ materially from those anticipated in these forward looking statements.

General

Cinram International Inc. (Cinram) is one of the world's largest independent providers of pre-recorded multimedia products, and logistic services. With facilities in North America and Europe, Cinram manufactures and distributes prerecorded DVDs, VHS video cassettes, audio CDs, music cassettes, and CD-ROM, for motion picture studios, music labels, publishers and computer software companies around the globe. Since its inception, the Company has continuously demonstrated its ability to evolve with changes in technology and consumer preferences.

OVERVIEW

2001 was a year of much improved financial performance. The Company's revenue and earnings were positively affected by the growth in the DVD format, and to a lesser extent the increased shipments of VHS video cassettes. Many believe DVD is becoming the "next" format of choice, and unit sales of this product increased significantly in the United States, and to a lesser extent in both Canada and Europe. Revenue from audio CDs increased by 9% over prior year levels. These gains were partially offset by a decline in CD-ROM revenue resulting from industry over capacity combined with a decline in Internet Service Provider (ISP) business. In addition, the Company experienced declining selling prices for all media formats.

In terms of revenues, 2001 was a rewarding year with increases stemming from the recent supply agreements for DVD and VHS video cassette manufacturing and distribution. Also in 2001, Cinram results reflected a full year of production from the CD facility in France, acquired in late 2000, providing Cinram with immediate market share and a solid foundation for CD and DVD growth in Europe.

The Company continued the streamlining of operations in 2001, a trend that will continue in 2002. In early 2001, Cinram closed its facility in Anaheim, California as part of the $51.7 million restructuring charge, announced in December 2000. Cinram also centralized its European CD and DVD manufacturing in the Louviers, France facility.

With respect to revenue, Cinram's North American business showed growth, largely from VHS and DVD. CD-ROM revenue declined across the industry, due mainly to a stagnant PC market, the continued use of the Internet for computer software distribution and the decline in the ISP market.

Audio CD sales also fell below expectations due largely to a fairly poor year for hit releases. We believe this is only a temporary trend and that the industry will again launch new artists with major hits.

As of the end of 2001, the Company's financial position remains fundamentally strong with a cash surplus, consisting of cash and cash equivalents less bank operating loans and long-term debt, of $42.4 million as compared to $0.5 million at the end of 2000.

REVENUE

2001 revenue increased 28% to $831.7 million from $652.3 million. The November 2000 acquisition of a CD facility in France, combined with the North American DVD and VHS supply agreements accounted for $228.3 million in incremental revenue. Organic revenue declined due to pricing pressures combined with a lack of hit releases for music CD and lower CD-ROM sales.

In 2001, consolidated multimedia unit shipments were up 16% from the prior year, while average selling prices for all media formats decreased compared to 2000. Annual price decreases for all media formats have been the trend for the Company throughout its history.

GEOGRAPHIC SEGMENTS

North America

North American revenue increased 23% to $592.4 million from $482.1 million in 2000. VHS revenue, driven by the Company's recent contract signings, was $195.3 million, up 47% from $133.2 million in prior year.

DVD revenue increased 257%, to $128.9 million from $36.1 million in 2000. DVD unit volume continued to increase, but was partially offset by the decline in average selling price.

Audio CD revenue decreased to $ 135.5 million in 2001, down from $162.8 million in 2000. This decline was due to a lack of major music releases during the year. CD-ROM revenue decreased to $36.8 million from $73.6 million in 2000. DVD ROM is a format that is growing slowly and may provide future opportunities for the company as software developers design programs that require a larger storage capacity.

The number of DVDs replicated in North America will surpass the one-billion mark in 2002.

IRMA 2002

In terms of the North American audio cassette market, unit shipments for Cinram increased slightly. During 2001, another major music label shifted a significant amount of their audio cassette requirements to Cinram to better allow them to focus on their core business. This has allowed Cinram to reduce the rate of decline of this format while ensuring that this business segment will continue to contribute to Cinram revenues and profitability.

Europe

2001 revenue in Europe was $239.3 million, a 41% increase from $170.2 in 2000.

Excluding the revenues associated with the acquisition of the CD manufacturing plant in France in late 2000, revenue for Europe increased 4% from prior year levels.

DVD unit shipments increased in Europe, although DVD revenue remained insignificant relative to VHS video cassette revenue.

Both VHS shipments and the corresponding revenue increased marginally in Europe, as shipments to major video customers remained strong. In terms of individual markets, the U.K. generated the majority of European video cassette revenues, with unit shipments up 8%. This was offset by lower video cassette shipments in both France and the Netherlands.

During 2001, audio cassette unit shipments decreased compared to the prior year, in line with industry performance for this format.

INDUSTRY SEGMENTS

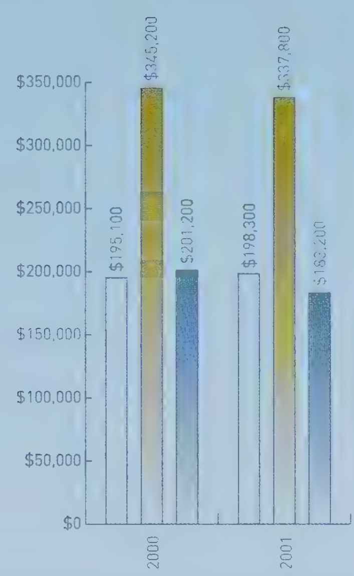
The Home Video segment increased sharply in 2001 to $477.5 million, an increase from $317.2 in 2000. VHS represented 42% of consolidated revenue in 2001, as compared to 43% in the prior year. DVD represented 16% of consolidated revenue in 2001, increasing from 6% in 2000. The Company expects the Home Video segment to continue to be the driver of revenue gains in 2002.

Cinram's Audio/ROM segment, consisting of audio CDs, CD-ROM and audio cassette, generated 2001 revenue of $287.5 million. This accounted for 35% of consolidated revenue, down from 48% in the prior year, due in large part to the decline of the CD-ROM market, combined with the rapid growth of the home video segment.

Cinram's audio cassette sales are reflective of the entire market's decline. Despite an increasing market share, sales declined to $46.9 million, down from $51.5 in 2000. The audiocassette now represents 6% of consolidated revenue, as compared to 8% in 2000.

Distribution services revenue (included in "Other Segment") was $42.4 million in 2001, as compared to $17.1 million in 2000. The Company anticipates that distribution related revenue will continue to increase, as the Company further enhances its "one-stop shop" for major customers.

Total Assets by Region
(in $ thousands)



Europe
USA
Canada

GROSS PROFIT

Gross profit was higher across all regions, having increased by $17.4 million, from $103.6 million in 2000 to $121.0 million in 2001. Expressed as a percentage of revenue, gross profit decreased to 15%, compared to 16% in 2000. This was due to lower selling prices for all media formats.

The Company mostly offset lower selling prices for all formats through lower raw material costs combined with improved labor and overhead efficiencies. In 2001, Cinram benefited from a lower labor and overhead cost per unit as the Company increased total unit shipments, without a corresponding increase in employees and factory related overhead expenses. This was accomplished by consolidating the number of outside warehouses in the United States combined with the closure of our facility in California early in 2001.

Amortization expense and the write-down of the carrying value of capital assets was $79.5 million in 2001, compared to $88.9 million in 2000. Excluding the accelerated write-down of capital assets in 2001, amortization expense increased to $66.9 million, from $57.8 million in 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased to $78.8 million from $77.0 million in 2000. Excluding the November 2000 acquisition of the facility in France, selling, general and administrative expenses decreased to $71.5 million. As a percentage of sales, selling, general and administrative expenses decreased to 9%, compared to 12% in the prior year. During the prior year, the Company incurred one-time costs associated with key strategic contracts in North America.

GOODWILL

Goodwill amortization decreased to $2.1 million from $5.1 million in the prior year. As of December 2001, the Company had $6.8 million of goodwill remaining on its consolidated balance sheet, down from $39.8 million three years ago.

RESEARCH AND DEVELOPMENT

With the closure of the Company's plant in California in February 2001, Cinram's commitment to research and development has decreased from the prior year, with costs of $0.1 million for 2001, compared to $1.7 million in the prior year. The majority of the Company's investment in research and development in past years was directed at increasing efficiency in DVD manufacturing. In recent years, there has been a consolidation of equipment manufacturers for the optical disc industry and these companies now provide more advanced and highly efficient equipment, reducing Cinram's necessity to spend significant funds on R&D activities.

INTEREST EXPENSE

Interest expense declined to $9.6 million in 2001 compared to $18.2 million in 2000. This is principally due to the significant amount of debt repaid over the past two years, combined with lower interest rates. During 2001, the approximate average debt balance decreased to $110.6 million as compared to $210.1 million in 2000.

INVESTMENT INCOME

In 2001, investment income declined to $4.4 million, from $16.7 million in 2000, as the Company used surplus cash balances to pay down long-term debt.

UNUSUAL ITEMS

Over the past three years, the Company has recorded restructuring charges totaling $78.2 million. Of this total, $14.5 million relates principally for employee severance and other contract cancellation costs, $49.3 million relates to the write-down of capital assets and $14.4 million relates to the write-down of goodwill, based on reductions in estimated future cash flows.

In 1999, restructuring charges of $30.5 million were recorded relating to a plant closure and the associated employee severance costs, combined with a write down of capital assets and goodwill.

During 2000, management continued the restructuring of its operations. This resulted in the Company recording a restructuring charge of $51.7 million, principally for plant closures, the associated employee severance and other contract cancellation costs combined with a further write-down of capital assets and goodwill.

During 2001, the planned closure of a U.S. plant and write-down of equipment was completed. The next phase of the restructuring plan, which involved a plant closure of one of the European facilities, was not completed by December 31, 2001. Consequently, those portions of the 2000 accrual which had not been expended were cancelled and $16.6 million was applied to reduce the 2001 charge against earnings.

The 2001 restructuring charge totals $12.6 million and relates primarily to a write-down of the carrying value of capital assets at our facility in Alabama to their net recoverable value.

INCOME TAXES

The Company's effective tax rate for the year was 34.8%. There were two offsetting factors contributing to the tax rate being below the Company's normalized rate of 41.8%. The Company benefited from lower tax rates in some jurisdictions, which helped reduce the tax rate. This was partially offset by losses incurred at our European subsidiaries, which were not tax affected, as there is no certainty that these losses will be utilized. Accordingly, the pre-tax income of $36.4 million was reduced by $12.7 million in tax expense, resulting in net income of $23.7 million.

Please refer to Note 11 to the consolidated financial statements for additional information regarding the Company's effective tax rate.

RECONCILIATION WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The financial statements have been prepared using Canadian generally accepted accounting principles (Canadian GAAP). However, adjustments must be made to the financial results to conform with United States generally accepted accounting principles (U.S. GAAP). Note 18 to the consolidated financial statements provides a reconciliation between Canadian and U.S. GAAP. Under U.S. GAAP, the Company's 2001 net earnings were $28.7 million, as compared to $23.7 million under Canadian GAAP.

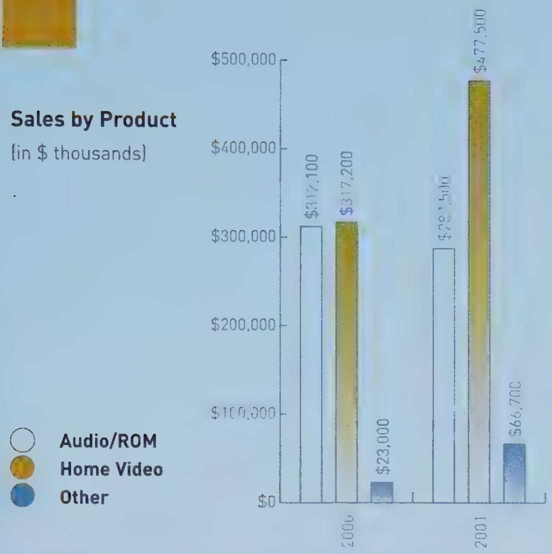
FISCAL 2000 COMPARED TO FISCAL 1999

OVERVIEW

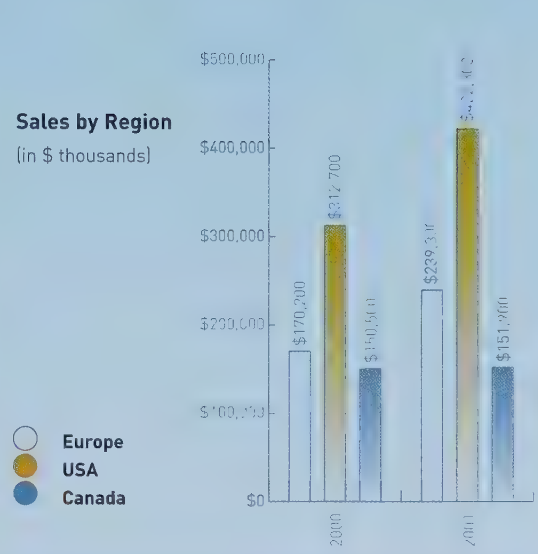
2000 was a year of mixed performance. Several factors simultaneously impacted our results, including a significant decline in CD revenue, over capacity throughout the industry which led to price reductions, higher material costs in oil based products and one-time start up costs with respect to new major contracts.

However, 2000 was also a very rewarding year in terms of strategic acquisitions for the Company. Cinram entered into two significant agreements with a major North American motion picture studio. Also in

Sales by Product
(in $ thousands)



Sales by Region
(in $ thousands)



2000, Cinram acquired a major CD facility in France, providing Cinram with immediate market share and a solid foundation for CD and DVD growth in Europe.

The Company continued the streamlining of operations in 2000, a trend that continued into 2001. In December 2000, Cinram announced a $51.7 million restructuring charge, which included the closure of facilities, headcount reduction and the write-down of carrying value of capital assets and goodwill. With respect to revenue, Cinram's North American business showed a modest improvement over 1999, thanks largely to VHS and DVD contracts. CD-ROM was well below expectations across the industry, due mainly to a stagnant PC market, the decline in CD-ROM use among ISPs and the continued emergence of the Internet as an alternate medium of computer software distribution. Audio CD sales also fell below expectations due largely to a poor year for hit releases.

Despite a disappointing financial performance in 2000, the Company's financial position remained fundamentally strong as of December 31, 2000.

REVENUE

2000 revenue remained relatively flat, increasing to only $652.3 million, from $645.5 million in 1999. While average selling prices for all media formats were down compared to 1999, this was offset by a shift in product mix to higher priced VHS and DVD product.

GEOGRAPHIC SEGMENTS

North America

Overall, North American revenue increased 2% to $482.1 million in 2000, up from $471.3 million in 1999. VHS revenue, driven by the Company's contract signings, was $129.5 million in 2000, up 23% from $105.5 million in prior year.

DVD revenue jumped 179% to $36.1 million in 2000, up from $12.9 million in 1999. DVD unit volume continued to increase, but was offset by the decline in average sales price as this media format continued to gain market adoption.

CD-ROM revenue decreased to $73.6 million in 2000 from $87.2 million in 1999, due to a decline in business associated with ISPs.

In terms of the North American audio-cassette market, shipments continued to weaken for Cinram, a reflection of the entire industry's declining state.

Europe

Revenue in Europe in 2000 was $170.2 million, a 2% decrease from $174.2 million in 1999. During 2000, the Company completed the strategic acquisition of a CD manufacturing plant in Louviers, France and also signed a long-term contract as exclusive CD supplier for Universal Music International B.V.

Although VHS shipments increased 10% in Europe, revenue was down slightly, reflecting a decline in average selling prices.

During 2000, the Company commenced shipping DVD product in Europe, although DVD revenue remained insignificant relative to VHS video cassette revenue. Audio cassettes continued to be a source of revenue in Europe, accounting for 10% of the continent's total revenue, compared to 15% in 1999. In terms of individual markets, the U.K. performed the most profitably, with unit shipments up 52%. This was offset by disappointing shipments in both France and the Netherlands.

INDUSTRY SEGMENTS

Cinram's Audio/ROM segment, consisting of audio CD, CD-ROM and audio cassette, remained Cinram's largest segment in 2000 at $312.1 million. This accounted for 48% of consolidated sales, down from 54% in the prior year, due in large part to the decline of the audio cassette market.

Cinram's audio cassette sales reflect the entire market's decline. Despite a healthy existing market share, sales dropped sharply to $51.5 million in 2000, down from $76.9 in 1999. The audio cassette represented 8% of total sales in 2000, as compared to 12% in 1999.

The VHS video cassette duplication segment increased to $278.9 million in 2000, up from $271.1 million in 1999. VHS represented 43% of consolidated sales in 2000, as compared to 42% in the prior year.

DVD revenue (included in "Other") was $38.2 million in 2000, and continued its significant growth to represent 6% of consolidated sales, increasing from 2% in 1999.

GROSS PROFIT

Gross profit was lower across virtually all regions, having decreased by $60.6 million, from $164.2 in 1999 to $103.6 in 2000. Expressed as a percentage of revenue, gross profit decreased to 16%, compared to 25% in 1999. This was due to the combined impact of lower selling prices and rising material costs for CDs. As well, substantial one-time costs related to recent contracts had a negative impact on margins.

Amortization expense and the write-down of capital assets and goodwill was $88.9 million in 2000, compared to $78.6 million in 1999. Excluding the accelerated write-down of capital assets and goodwill, amortization expense from capital assets increased to $52.7 million, from $49.8 million in 1999.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased to $77.0 million in 2000 from $71.7 million in 1999. As a percentage of sales, selling, general and administrative expenses increased slightly to 12% in 2000, compared to 11% in the prior year. In 2000, the Company incurred one-time costs associated with key strategic contracts in North America and also saw an increase in IT related expenses.

GOODWILL

Goodwill amortization decreased to $5.1 million in 2000 from $8.7 million in the prior year, due to goodwill written-off in 1999. As a result of the goodwill write-off, the Company had $8.6 million of goodwill remaining on its consolidated balance sheet as of December 31, 2000, down from $39.8 million two years ago. As described below, the restructuring charge announced in December of 2000 included an additional amount of goodwill amortization of $5.8 million.

RESEARCH AND DEVELOPMENT

Cinram's commitment to research and development remained consistent with the prior year, with costs totaling $1.7 million for 2000. The majority of the Company's investment in research and development for the year was directed at increasing efficiency in DVD manufacturing.

INTEREST EXPENSE

Interest expense rose slightly to $18.2 million in 2000, compared to $16.0 million in 1999. This was principally due to the significant amount of capital expenditures in the U.S., which led to an increase in funding requirements.

INVESTMENT INCOME

Investment income remained flat in 2000 at $16.7 million, compared to $16.8 million in 1999. The Company's net cash position decreased in 2000 resulting from significant capital expenditures, enhanced working capital requirements, and the buy-back of common shares. This was offset by higher interest yields generated on surplus cash.

During the year, the Company disposed of $44 million in preferred shares and by December 31, 2000 had $1 million in marketable securities, consisting of government bonds.

UNUSUAL ITEMS

In December 2000, the Company recorded a charge of $51.7 million associated with the restructuring of operations in North America and Europe. The charge included a provision for restructuring of $20.6 million, principally for employee severance costs associated with the closure of manufacturing facilities in 2001 combined with reducing headcount levels in each remaining manufacturing facility. In addition, the provision for restructuring covered legal costs, outplacement services and lease termination fees related to plant closures.

The second component of the charge totaled $25.3 million and related primarily to a write-down of carrying value of capital assets at those facilities being shut down. Starting in 1999 and throughout 2000, the Company conducted reviews of the carrying values of its capital assets and recognized that due to excess capacity, certain capital assets are not being used throughout the entire year. Accordingly, management determined it was necessary to write down the net book value of these assets, based on estimated future cash flows.

The final component of the charge related to a $5.8 million write-down of goodwill, primarily resulting from the 1997 acquisition of Disc Manufacturing Inc in the United States. Given that the competitive U.S. audio CD and CD-ROM market continues to face industry consolidation, the Company determined that the goodwill relating to the Anaheim facility should be written off.

INCOME TAXES

The Company's tax rate for the year reflected a recovery of 24%. There were two primary factors that contributed to the tax recovery being below the Company's normalized rate of 37%. Losses incurred at our European subsidiaries were not tax effected, as there is low probability that these losses will be fully utilized. Also, certain items included in the restructuring provision are not deductible for tax purposes. Accordingly, the pre-tax loss of $37 million was reduced by $9 million in tax savings, resulting in a net loss of $28 million.

Please refer to Note 11 to the consolidated financial statements for additional information regarding the Company's effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2001, cash and cash equivalents totaled $91.9 million, down from $127.2 million at December 31, 2000. The decrease in cash and cash equivalents during 2001 resulted primarily from a reduction of $78.4 million in bank operating loans and long-term debt combined with the purchase of capital assets totaling $80.3 million, primarily relating to the completion of our facility expansion in Huntsville, Alabama. These cash outflows were partially offset by proceeds of disposition from the sale of our Anaheim facility for $18.8 million.

Overall, the net cash surplus, which consists of cash and cash equivalents less bank operating loans and long-term debt increased to $42.4 million at December 31, 2001 from $0.5 million at December 31, 2000.

The Company's working capital position at December 31, 2001 increased to $121.4 million, up from $95.6 million in the prior year, reflecting the Company's improved operating results.

Capital expenditures in 2001 totaled $80.3 million; down from $97.6 million in 2000, as the prior year figure reflects the majority of the expansion at our Huntsville, Alabama facility. In 2001, the construction of the 800,000 square foot addition to our existing building was completed, and additional DVD and distribution equipment was added to accommodate the exclusive manufacturing agreements signed in 2000.

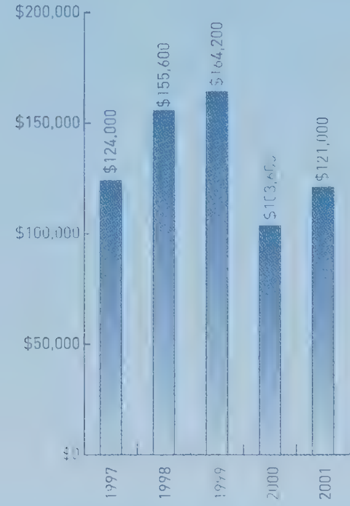
Furthermore, DVD capacity and distribution equipment was added in both Canada and Europe during the year to accommodate customer demand for these services.

As of the end of April 2002, Cinram is close to securing a $35 million, one year revolving credit facility in Canada, consisting of a $25 million facility secured by accounts receivable and inventory, combined with a $10 million demand, non-revolving loan with first charge over capital assets.

Also in April 2002, Cinram secured a US$25 million, two year credit facility in the United States, secured by U.S. based accounts receivable and inventory. Cinram is required to maintain certain financial ratios under both credit facilities.

In December 2001, Cinram entered into an asset backed lending arrangement whereby proceeds of US$25 million were provided to the Company, secured by capital assets at our Huntsville, Alabama facility.

Gross Profit
(in $ thousands)



Cinram believes that cash flow from operations, together with existing cash on hand and available credit facilities will be sufficient to cover working capital, planned capital spending and debt servicing.

Cinram does not have any off balance sheet financing activities. All of Cinram's debt and future commitments are disclosed on the balance sheet, as well as notes 7 and 8 to the December 31, 2001 consolidated financial statements.

RISKS AND UNCERTAINTIES

While Cinram continues to believe that the Internet does not pose a serious threat to the Company and its business over the next five years, the Company recognizes that there are many more peer-to-peer networks than there were at this time last year.

Prices continue to drop across all product lines caused by over-capacity within the industry. VHS cannibalization has begun to emerge, as DVD sales begin to replace VHS sales due to dropping DVD price points and discrepancy in playback quality.

The drop in demand for Cinram's products remains a risk, as does the potential loss of major customers. In 2001, approximately 53% of revenue was derived from the Company's two largest customers, a 19% increase from a year ago. Also in 2001, the largest single customer accounted for 32% of consolidated revenue, up from 20% in 2000.

The Company's immediate future depends on its ability to capitalize on the current widespread market acceptance of DVD by acquiring DVD business through new contracts or acquisitions. Long-term success for Cinram continues to depend on the Company's ability to invest in new technologies as customers transition from existing formats to those that are emerging.

STRATEGIES FOR MANAGING OPERATIONAL RISK

The Company will continue to explore alternative revenue sources, such as expanding its distribution capabilities and finding new product lines to distribute.

The industry continues to face consolidation, due to price pressure and excess capacity industry-wide. While consolidation presents the risk of losing established customers to competitors, it conversely provides growth opportunities as firms merge and expand. Cinram plans to actively pursue more long-term supply agreements to offset potential business loss and minimize this risk.

Integration of services and IT systems has become increasingly essential to providing customers with timely and accurate information. Cinram continues to address this ongoing risk, by constantly upgrading technologies and implementing proprietary software to increase efficiency and provide a global, integrated customer solution. The Company believes its distribution capabilities are an essential business differentiation, and will continue to leverage this through increased service levels at all points.

The potential rise in the cost of raw materials can potentially impact future gross margins, as evidenced in 2000. Cinram's purchasing power creates benefits through economies of scale that help offset this risk.

CHANGING TECHNOLOGIES

Widespread use of the Internet as a viable replacement for the delivery of physical product would appear to remain in the future, despite the emergence of more peer-to-peer networks that perpetuate free downloading. Digital downloading still represents a small percentage of the total consumer entertainment delivery industry.

Current Internet capabilities do not provide the quality, bandwidth and security associated with existing media such as VHS, DVD or CDs, especially for video content intended for home entertainment.

It is the Company's view that individuals still appreciate the convenience and unique packaging that accompany the purchase of physical product, and will continue to do so for the foreseeable future.

FINANCING AND INVESTMENTS

Cinram's continued growth in international markets means continued exposure to the risk of foreign currency fluctuations.

The Company maintains a conservative investment strategy whereby all cash and cash equivalents are invested in highly liquid money market type instruments offering higher yields than cash balances. All investments are purchased on the basis that they can be sold expeditiously when the funds are required, with no discount to market.

OUTLOOK

Staying Competitive

The Company is beginning to realize a return on its acquisition of the CD facility in Louviers, France. CD sales, driven primarily by local releases and local artist success, increased in Europe in 2001. While the contract with a major European label provides Cinram with a guaranteed volume of shipments, it has also helped Cinram establish its credibility as a viable option with the ability to handle large capacity, which makes the Company more attractive as a potential supplier. The Louviers facility will continue to serve as Cinram's European CD and DVD headquarters.

In North America, CD revenues have declined due to dropping price points, yet the sharing of overhead costs across several product lines allows Cinram to maximize per unit profit margins.

Leveraging DVD Growth

Cinram has seen the demand for the DVD format grow exponentially in North America in 2001, and expects this trend to continue in 2002. DVD is also becoming more prominent and widely accepted in Europe, and the Company expects to begin selling DVD replication services in Latin America in 2002. DVD capacity has been added in North America and Europe during 2001 to accommodate increasing demand in those regions. Cinram's facility in Huntsville, Alabama has been expanded to 1.2 million square-feet, and is now the central source for Cinram's DVD distribution in North America. As DVD players continue to drop in price, DVD sales will be stimulated.

In the video market, the Company has seen both DVD and VHS coexist with fairly positive results in 2001. The Company continues to foresee solid VHS revenue for the foreseeable future, despite an expected yearly drop in VHS shipments due to the continued rise in DVD. Yet with VCR market saturation and even lower VHS price points, VHS will remain a steady contributor to Cinram's revenue base for some time.

The Company expects 2002 to be a very solid year in terms of new releases, which is also a key driver of video sales.

Value Added Services

Cinram continues to offer one of the most complete product and service offerings in the industry. With complex logistics becoming increasingly prevalent, Cinram's distribution capabilities have become even more crucial in satisfying the challenging needs of existing customers and are a key driver of Cinram's future business development.

Cinram's Global IT systems also continue to be a key asset in driving new business. This has allowed the Company to use its facilities more efficiently by allowing for better communication with customers.

This year, IRMA [illegible]
the one billion unit [illegible]

Overall

Cinram is optimistic about the future, based on the anticipated rapid growth of DVD – and the Company's investment in capitalizing on this market – despite the perception that physical product was going to be replaced. The Company is confident that the strong results in 2001 prove that Cinram's experienced management team understood the marketplace and was moving the Company forward towards new opportunities.

Cinram will continue to seek new opportunities that either strengthen the Company's market share or develop new revenue streams in new regional markets.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are used in determining certain accruals as actual amounts may not be known as of the date of the reporting period.

RECENT ACCOUNTING DEVELOPMENTS

Business combinations and goodwill:

In September 2001, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 1581 "Business Combinations", and Section 3062 "Goodwill and Other Intangible Assets". These new standards require the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. The standards also specify criteria that intangible assets must meet to be recognized and reported apart from goodwill. The standards require the value of the shares issued in a business combination be measured using the average share price for a reasonable period before and after the date of the acquisition are agreed and announced. Previously, the consummation date was used to value the shares issued in a business combination. The new standards are consistent with United States GAAP.

Upon full adoption of the standards beginning January 1, 2002, the Company will discontinue amortization of all existing goodwill, and will test for impairment in accordance with the new standards.

In connection with Section 3062's transitional goodwill impairment evaluation, the Company is required to assess whether goodwill is impaired as of January 1, 2002. The Company has up to six months to determine the fair value of its reporting units and compare that to the carrying amounts of the reporting units. To the extent a reporting unit's carrying amount exceeds its fair value, the Company must perform a second step to measure the amount of impairment in a manner similar to a purchase price allocation. This second step is to be completed no later than December 31, 2002. The change to assessing fair value by reporting unit could result in an impairment charge. Any transitional impairment will be recognized as an effect of a change in accounting principle and will be charged to opening retained earnings as of January 1, 2002.

Due to the extensive effort needed to comply with adopting Section 3062, it is currently not practicable to reasonably estimate the impact of adopting Section 3062 on the Company's financial statements, including whether it will be required to recognize any transitional impairment losses.

Stock-based compensation and other stock based payments:

In December 2001, the CICA issued Handbook Section 3870, which establishes standards for the recognition, measurement, and disclosure of stock based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, the call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. The standard is effective for the Company's fiscal year beginning January 1, 2002 for awards granted on or after that date.

The Company does not believe the new standard will have a significant impact. Section 3870, however, does require additional disclosures for options granted to employees, including disclosure of pro forma earnings and pro forma earnings per share as if the fair value based accounting method had been used to account for employee stock options.

Foreign currency translation and hedging relationships:

CICA Handbook Section 1650 has been amended to eliminate the deferral and amortization of foreign currency translation gains and losses on long lived monetary items, effective January 1, 2002 with retroactive restatement of prior periods. The CICA issued Accounting Guideline AcG-13, which establishes criteria for hedge accounting effective for the Company's 2003 fiscal year. The Company will be complying with AcG-13 and currently does not believe this new standard will have a significant impact.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's management is responsible for the information in this annual report and for the preparation of the financial statements. The financial statements have been prepared in accordance with general accepted accounting principles and include estimates considered necessary by management to fairly and consistently present the consolidated financial position of the Company.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reliable for preparing financial statements.

The Board of directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. The Audit Committee, composed of three outside directors, meets with the independent auditors and reviews the consolidated financial statements prior to submission to the Board for approval.

Lewis Ritchie
Chief Financial Officer
February 22, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Cinram International Inc. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 22, 2002

CONSOLIDATED BALANCE SHEETS

(Stated in thousands of Canadian dollars)

Years ended December 31,		2001		2000
ASSETS				
Current assets:				
Cash and cash equivalents	$	**91,879**	$	125,972
Marketable securities (market value - nil; 2000 - $1,250)		**–**		1,250
Accounts receivable		**244,828**		225,169
Income taxes recoverable		**–**		8,090
Inventories (note 4)		**38,758**		43,947
Prepaid expenses		**8,331**		3,996
Future income taxes (note 11)		**7,827**		6,575
		391,623		414,999
Capital assets (note 5)		**296,205**		293,737
Assets under capital lease (note 5)		**19,501**		24,267
Goodwill, (net of accumulated amortization of $40,817 (2000 - $38,743))		**6,805**		8,624
Other assets		**20,638**		25,216
Future income taxes (note 11)		**612**		1,314
	$	**735,384**	$	768,157
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Bank operating loans (note 6)	$	**8,254**	$	72,614
Accounts payable and accrued liabilities		**243,387**		242,049
Income taxes payable		**10,205**		–
Dividends payable		**–**		1,256
Current portion of long-term debt (note 7)		**6,988**		1,750
Current portion of obligations under capital leases (note 8)		**1,357**		1,742
		270,191		319,411
Long-term debt (note 7)		**34,231**		52,373
Obligations under capital leases (note 8)		**15,333**		16,710
Future income taxes (note 11)		**17,030**		16,382
Shareholders' equity:				
Capital stock (note 9)		**238,465**		238,901
Contributed surplus		**182**		–
Retained earnings		**143,670**		123,090
Foreign currency translation adjustment		**16,282**		1,290
		398,599		363,281
Commitments and contingent liabilities (notes 8 and 12)				
	$	**735,384**	$	768,157

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Isidore Philosophe (Director)

Lewis Ritchie (Director)

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

(Stated in thousands of Canadian dollars, except per share amounts)

Years ended December 31,		2001		2000
Net sales	$	**831,723**	$	652,281
Cost of goods sold		**710,680**		548,703
Gross profit		**121,043**		103,578
Selling, general and administrative expenses		**78,799**		76,952
Goodwill amortization		**2,074**		5,063
Research and development		**99**		1,700
Exchange loss on foreign currency balances		**2,409**		3,424
		83,381		87,139
Earnings before interest expense, investment income, unusual items and income taxes		**37,662**		16,439
Interest expense on long-term debt		**5,236**		3,621
Interest expense on capital leases		**1,232**		1,335
Interest expense - other		**3,174**		13,236
Investment income		**(4,404)**		(16,671)
Earnings before unusual items and income taxes		**32,424**		14,918
Unusual items (note 10)		**(3,980)**		51,676
Earnings (loss) before income taxes		**36,404**		(36,758)
Income taxes (recovery) (note 11):				
Current		**12,593**		(1,402)
Future		**98**		(7,245)
		12,691		(8,647)
Net earnings (loss)		**23,713**		(28,111)
Retained earnings, beginning of year		**123,090**		165,311
Premium paid on common shares purchased for cancellation		**–**		(9,658)
Dividends declared		**(3,133)**		(4,452)
Retained earnings, end of year	$	**143,670**	$	123,090
Net earnings (loss) per share	$	**0.43**	$	(0.51)
Diluted net earnings (loss) per share		**0.43**		(0.51)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in thousands of Canadian dollars)

Years ended December 31,	2001	2000
Cash provided by (used in):		
OPERATIONS:		
Net earnings (loss)	**$ 23,713**	$ (28,111)
Items not involving cash:		
Amortization	**66,855**	57,760
Write-down of carrying value of capital assets	**12,641**	31,099
Future income taxes	**98**	(7,245)
Loss on disposition of capital assets	**64**	2,069
Unrealized foreign exchange loss	**2,606**	2,063
Change in non-cash working capital (note 14)	**(90)**	(21,108)
	105,887	36,527
FINANCING:		
Decrease in bank operating loans	**(64,661)**	(107,482)
Repayment of long-term debt	**(53,324)**	(3,743)
Increase in long-term debt	**39,620**	–
Decrease in obligations under capital leases	**(1,167)**	(3,637)
Purchase for cancellation of common shares	**(254)**	(19,560)
Dividends paid	**(4,389)**	(4,439)
	(84,175)	(138,861)
INVESTMENTS:		
Sale of marketable securities	**1,250**	44,075
Net cash consideration for acquisition (net of cash of $6,234) (note 3)	**–**	(7,288)
Purchase of capital assets	**(80,341)**	(97,624)
Proceeds on disposition of capital assets	**18,759**	2,920
Decrease (increase) in other assets	**4,243**	(19,021)
	(56,089)	(76,938)
Foreign exchange gain on cash held in foreign currencies	**284**	1,179
Decrease in cash and cash equivalents	**(34,093)**	(178,093)
Cash and cash equivalents, beginning of year	**125,972**	304,065
Cash and cash equivalents, end of year	**$ 91,879**	$ 125,972
Supplemental cash flow information:		
Interest paid	**$ 9,066**	$ 18,409
Income taxes paid	**2,531**	15,647

See accompanying notes to consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounts of the joint ventures have been consolidated in the financial statements on a proportionate basis. All intercompany balances and transactions have been eliminated.

(b) Inventories:

Raw materials are stated at the lower of cost, determined substantially on a first-in, first-out basis, and replacement cost. Finished goods and work in process are stated at the lower of cost and net realizable value.

(c) Capital assets:

Capital assets are recorded at cost. Major renewals and improvements are capitalized, while maintenance and repairs are charged to operations as incurred. Gains or losses arising from the disposition of capital assets are reflected in net earnings.

Amortization is provided using the following methods and annual rates, commencing when the asset is entered into use:

Asset	Basis	Rate
Buildings	Straight line	2.5% - 5%
Machinery and equipment	Straight line	10% - 33.3%
Computer equipment	Straight line	20% - 33.3%
Furniture	Declining balance	20%
Leasehold improvements		Over term of lease

(d) Foreign currency translation:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are included in the determination of net earnings for the year.

Unrealized exchange gains and losses on long-term monetary items are deferred and included as deferred foreign exchange on the balance sheet and are being amortized over the term of the monetary item. To the extent that a long-term monetary item is considered to be a hedge of an investment, the unrealized exchange gain or loss is considered part of the foreign currency translation adjustment account included in shareholders' equity.

For self-sustaining foreign operations, all assets and liabilities are translated into Canadian dollars using year-end exchange rates and revenue and expenses are translated at average exchange rates. Gains and losses arising from the translation of the financial statements of self-sustaining foreign operations are deferred and included as a separate component of shareholders' equity.

(e) Research and development costs:

Development costs relating to specific projects that in the Company's view have a clearly defined future market are deferred and amortized based on production. All other research and other developments costs, net of investment tax credits, are charged to earnings in the period in which they are incurred.

(f) Goodwill:

Goodwill is amortized on a straight-line basis over five to ten years. Management re-evaluates the continuing value of goodwill annually, based on their estimated future cash flows, and any permanent impairment in the value of goodwill is written off to earnings.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(g) Cash and cash equivalents:

The Company considers all highly liquid investment instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

(h) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantively enactment date. Future income tax assets are recognized and if realization is not considered "more likely than not", a valuation allowance is provided.

(i) Stock-based compensation plan:

The Company has one stock-based compensation plan, which is described in note 9. No compensation expense is recognized for the plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to capital stock.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. CHANGE IN ACCOUNTING POLICY:

The Company has made the following change in accounting policy:

Earnings per share:

In 2001, the Company has adopted the new recommendations of The Canadian Institute of Chartered Accountants ("CICA") dealing with earnings per share. These new recommendations of CICA handbook Section 3500 harmonize the Canadian standard with the United States standards. The standard requires the disclosure of the calculation of basic and diluted earnings per share and the use of the treasury stock method for calculating the dilutive impact of stock options. All earnings per share amounts disclosed for comparison have been restated. This restatement did not have a significant impact on the diluted earnings per share, both before and after goodwill amortization, for each period presented.

3. ACQUISITION OF UNIVERSAL MUSIC INTERNATIONAL PRODUCTION FACILITIES:

On November 24, 2000, the Company acquired the shares of Universal Music International Manufacturing and Logistics, S.A. in Louviers, France for a total cash consideration of $13,522. The acquisition was accounted for by the purchase method and the results have been consolidated since November 24, 2000. The fair value of the net assets acquired was as follows:

Net assets:		
Current assets, including cash of $6,234	$	24,054
Capital assets		12,173
Accounts payable		(22,705)
Cash consideration	$	13,522

4. INVENTORIES:

		2001		2000
Raw materials	$	27,659	$	31,308
Work in process		3,897		3,960
Finished goods		7,202		8,679
	$	38,758	$	43,947

5. CAPITAL ASSETS:

	Cost	Accumulated amortization	2001 Net book value	2000 Net book value
Land	$ 7,302	$ –	$ 7,302	$ 12,918
Buildings	79,704	11,759	67,945	31,513
Machinery and equipment	474,161	282,750	191,411	200,568
Computer equipment	11,625	9,135	2,490	3,663
Furniture	23,501	17,401	6,100	7,765
Leasehold improvements	31,839	16,179	15,660	15,708
Construction in progress	5,297	–	5,297	21,602
	$ 633,429	$ 337,224	$ 296,205	$ 293,737

Assets under capital lease:

	Cost	Accumulated amortization	2001 Net book value	2000 Net book value
Land	$ 3,075	$ –	$ 3,075	$ 3,224
Buildings	24,061	8,627	15,434	19,359
Machinery and equipment	5,264	4,272	992	1,684
	$ 32,400	$ 12,899	$ 19,501	$ 24,267

The assets under capital lease are being amortized on a straight-line basis over their anticipated economic life which is twenty years for building, four years for machinery and equipment and three years for computer equipment.

(In thousands of Canadian dollars, except common shares and per share information)

6. BANK OPERATING LOANS:

Bank operating loans consist of demand loans payable in Sterling Pounds and Euros, bearing interest at varying market rates between 3.42% and 7% (2000 - 5.25% and 8%) and are secured by certain accounts receivable and inventories.

7. LONG-TERM DEBT:

		2001		2000
£9,000 unsecured, bearing interest at 7.405%	**$**	**-**	$	20,208
U.S. $20,000 unsecured, bearing interest at 6.403%		**-**		30,046
U.S. $24,837 due December 31, 2006 with blended monthly principal and interest repayment over a five-year period, secured by certain capital assets, bearing interest at 7.33%		**39,620**		-
Other		**1,599**		3,869
		41,219		54,123
Less current portion		**6,988**		1,750
	$	**34,231**	$	52,373

Interest costs on other long-term debt vary between 3.3% and 4.47% (2000 - 3.3% and 9.65%). Other long-term debts are secured by certain assets consisting of accounts receivable, land and buildings.

Future minimum repayments of long-term debt are as follows:

2002	$	6,988
2003		7,469
2004		7,726
2005		8,412
2006		10,624
	$	41,219

8. COMMITMENTS:

Future minimum rental commitments for all non-cancelable operating and capital leases as at December 31, 2001 are as follows:

	Capital	Operating	Total
2002	$ 2,340	$ 5,285	$ 7,625
2003	2,297	3,343	5,640
2004	2,251	2,907	5,158
2005	2,205	1,295	3,500
2006	7,595	1,294	8,889
2007 and thereafter	5,039	–	5,039
	21,727	$ 14,124	$ 35,851
Less interest (average rate of 7%)	5,037		
	16,690		
Less current portion	1,357		
	$ 15,333		

9. CAPITAL STOCK:

The authorized capital stock of the Company consists of an unlimited number of common shares and an unlimited number of preference shares. Capital stock issued and outstanding at December 31, 2001 and 2000 includes the following:

	Common shares	Warrants	Amount
Balance outstanding, December 31, 1999	57,228,926	1,700,000	$ 248,803
Shares cancelled under share buyback	(2,292,200)	–	(9,902)
Balance outstanding, December 31, 2000	54,936,726	1,700,000	238,901
Shares cancelled under share buyback	(100,000)	–	(436)
Balance outstanding, December 31, 2001	54,836,726	1,700,000	$ 238,465

The warrants entitle the holder to acquire 1,700,000 common shares at $15 per share and expire in 2003.

(In thousands of Canadian dollars, except common shares and per share information)

9. CAPITAL STOCK (CONTINUED):

Stock-based compensation plan:

At December 31, 2001, the Company has one stock-based compensation plan, which is described as follows:

Under the employee stock option plan, the Company may grant options to employees, officers and directors of the Company for up to 4,000,000 common shares. The exercise price of each option equals the market price of the Company's stock on the date of the grant; an option's maximum term is 10 years. The options vesting periods range from three years to five years.

A summary of the status of the Company's employee stock option plan as at December 31, 2001 and 2000 and changes during the years ended on those dates is presented below:

	2001		2000	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price
Outstanding, beginning of year	**2,247,002**	**$ 9.21**	1,826,002	$ 12.78
Granted	**370,500**	**2.74**	526,000	8.10
Forfeited	**(17,500)**	**5.04**	(105,000)	10.25
Outstanding, end of year	**2,600,002**	**8.35**	2,247,002	9.21
Options exercisable, end of year	**1,555,969**	**$ 11.42**	1,275,602	$ 8.97

The following summarizes information about the employee stock options at December 31, 2001:

	Options outstanding			Options exercisable	
Range of exercise price	**Options outstanding**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable**	**Weighted average exercise price**
$ 2.74 - 4.00	360,500	4.4 years	$ 2.74	–	$ 2.74
$ 4.00 - 6.00	280,667	2.5 years	4.63	280,667	4.63
$ 6.00 - 8.00	371,335	3.2 years	6.88	371,335	6.88
$ 8.00 - 10.00	513,500	8.2 years	8.10	171,167	8.10
$10.00 - 15.00	308,000	7.3 years	11.85	123,200	11.85
$15.00 - 20.00	524,000	5.0 years	17.11	464,400	16.95
$20.00 - 22.00	242,000	6.5 years	22.00	145,200	22.00
$ 2.74 - 22.00	2,600,002	5.3 years	$ 8.35	1,555,969	$ 11.42

9. CAPITAL STOCK (CONTINUED):

Basic and diluted net earnings per share have been calculated using the weighted average and maximum dilutive number of shares outstanding during the year, which amounted to 54,860,288 (2000 - 55,609,142) and 54,942,387 (2000 - 55,609,142), respectively. For the purpose of calculating diluted earnings per share, an average share price of $3.52 was used, resulting in 82,099 additional shares.

The following table sets forth the computation of diluted earnings per share:

		2001		2000
Numerator:				
Earnings (loss) available to common shareholders	**$**	**23,713**	$	(28,111)
Denominator (shares in thousands):				
Weighted average shares outstanding		**54,860**		55,609
Effect of dilutive securities:				
Employee stock options		**82**		–
Adjusted weighted average shares and assumed conversions		**54,942**		55,609

10. UNUSUAL ITEMS:

		2001		2000
Provision for restructuring (a)	**$**	**(16,621)**	$	20,577
Write-down of carrying value of capital assets (b)		**12,641**		31,099
	$	**(3,980)**	$	51,676

(a) During 2000, management continued the restructuring of its operations. This resulted in the Company recording a restructuring charge, principally for employee severance and other contract cancellation costs. All amounts were included in accrued expenses at December 31, 2000.

During 2001, the first phase of the restructuring plan, which involved the transfer of all CD and DVD equipment from one European plant to another, was completed, as was the planned closure of a U.S. plant. The second phase of the restructuring plan, which involved a plant closure of one of the European facilities, was not completed by December 31, 2001. Consequently, those portions of the 2000 accrual which had not been expended were cancelled, and the amount ($16,621) was applied to reduce the 2001 charge against earnings. Consequently, $16,621 of the 2000 accrual which had not been expended has been taken into income in 2001.

(b) In addition, in 2000 and 2001, management conducted reviews of the carrying values of its capital assets, which resulted in write-downs to capital assets to their net recoverable amount, based on reductions in estimated future cash flows, primarily from the discontinued usage of certain assets.

(In thousands of Canadian dollars, except common shares and per share information)

11. INCOME TAXES:

Income tax expense varies from the amount that would be computed by applying the basic combined federal and provincial rate as follows:

	2001		2000	
Basic rate applied to pretax income	**$ 15,217**	**41.8%**	$ (16,174)	(44.0)%
Increase (decrease) in taxes resulting from:				
Manufacturing and processing reduction	**(395)**	**(1.1)**	(260)	(0.7)
Losses in foreign subsidiaries not tax effected	**2,907**	**8.0**	5,184	14.1
Provision for restructuring not deductible	**–**	**–**	3,146	8.6
Write-down of carrying value of capital assets and goodwill not deductible	**–**	**–**	1,140	3.1
Tax rates in other jurisdictions	**(5,200)**	**(14.3)**	(3,466)	(9.4)
Other items	**162**	**0.4**	1,783	4.8
	$ 12,691	**34.8%**	$ (8,647)	(23.5)%

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2001 and 2000 are presented below:

	2001	2000
Future tax assets:		
Non-capital loss carryforwards	**$ 10,642**	$ 7,635
Capital loss carryforwards	**3,567**	3,041
Accruals not deductible in the current period	**22,440**	24,015
Goodwill	**915**	2,016
Tax credits available to reduce future taxes payable	**1,549**	3,776
Other	**1,572**	5,114
Total gross future tax assets	**40,685**	45,597
Less valuation allowance	**16,337**	28,320
Net future tax assets	**24,348**	17,277
Future tax liabilities:		
Capital assets - difference in net book value and undepreciated capital costs	**(32,939)**	(25,770)
Net future tax liabilities	**$ (8,591)**	$ (8,493)

At December 31, 2001, the Company has non-capital loss carryforwards in France and the Netherlands. No benefit has been established in relation to these losses as there is uncertainty that the Company will be able to utilize these losses in the future.

12. CONTINGENT LIABILITIES:

The Company is involved in various legal actions that are normal to the Company's business. In the opinion of the Company, any resulting liability is not expected to have a material adverse effect on the Company's financial position or its results.

13. RELATED PARTY TRANSACTIONS:

The Company leases certain premises from three companies owned by certain shareholders of the Company and their families. The lease, which is now on a month-to-month basis, is recorded at its exchange amount as agreed to by the parties. Lease costs in the year were $760 (2000 - $760).

14. CHANGE IN NON-CASH WORKING CAPITAL:

	2001	2000
Accounts receivable	**$ (19,659)**	$ (54,152)
Income taxes recoverable	**8,090**	(8,090)
Inventories	**5,189**	(3,028)
Prepaid expenses	**(4,335)**	26
Accounts payable and accrued liabilities	**420**	54,797
Income taxes payable	**10,205**	(10,661)
	$ (90)	$ (21,108)

15. SEGMENTED INFORMATION:

The Company has two reportable business segments, being audio/ROM replication/duplication and home video replication/duplication.

The audio replication segment manufactures audio cassettes, CDs and CD-ROMs and the home video replication/duplication segment manufactures video cassettes and DVDs.

DVD replication/duplication was previously included in other. Management now considers DVD replication/duplication part of the home video replication/duplication segment. Figures for 2000 have been restated accordingly.

The accounting policies of the segments are the same as those described in the significant accounting policies. The Company evaluates segment performance based on earnings before interest expense, investment income, unusual items and income taxes.

In 2001, the Company was dependent on two customers for approximately 32% and 21%, respectively, of consolidated revenue from the two main business segments.

At December 31, 2001, approximately 29% of consolidated accounts receivable were due from one customer.

(In thousands of Canadian dollars, except common shares and per share information)

15. SEGMENTED INFORMATION (CONTINUED):

Industry segments:

2001	**Audio/ROM replication/ duplication**	**Home Video replication/ duplication**	**Other**	**Total**
Revenue from external customers	**$ 287,533**	**$ 477,513**	**$ 66,677**	**$831,723**
Earnings (loss) before interest expense, investment income, unusual items and income taxes	**13,667**	**27,583**	**(3,588)**	**37,662**
Total assets	**254,228**	**422,202**	**58,954**	**735,384**
Amortization of capital assets and goodwill	**23,112**	**38,383**	**5,360**	**66,855**
Capital expenditures	**13,302**	**61,440**	**5,599**	**80,341**

2000	Audio/ROM replication/ duplication	Home Video replication/ duplication	Other	Total
Revenue from external customers	$ 312,123	$ 317,151	$ 23,007	$ 652,281
Earnings (loss) before interest expense, investment income, unusual items and income taxes	11,302	5,427	(290)	16,439
Total assets	391,549	349,514	27,094	768,157
Amortization of capital assets and goodwill	27,101	30,242	417	57,760
Capital expenditures	32,839	64,066	719	97,624

15. SEGMENTED INFORMATION (CONTINUED):

Geographic segments:

2001	**Canada**	**United States**	**United Kingdom**	**France**	**Other**	**Total**
Revenue from external customers	**$ 151,941**	**$ 422,280**	**$ 79,857**	**$ 126,693**	**$ 50,952**	**$ 831,723**
Capital assets and goodwill	**63,528**	**206,336**	**4,648**	**43,021**	**4,978**	**322,511**

2000	Canada	United States	United Kingdom	France	Other	Total
Revenue from external customers	$ 150,539	$ 312,692	$ 75,372	$ 60,868	$ 52,810	$ 652,281
Capital assets and goodwill	75,020	198,460	9,531	34,327	9,290	326,628

16. FINANCIAL INSTRUMENTS:

The carrying values of cash and cash equivalents, accounts receivable, bank operating loans and accounts payable and accrued liabilities approximate fair values because of the short maturity of these financial instruments. The carrying values of long-term debt and obligations under capital leases which have variable interest rates based on market rates approximate fair values of those financial instruments. The fair values of the Company's other long-term debt and obligations under capital leases were based on the amount of future cash flows associated with each instrument discounted using borrowing rates currently available for similar debt instruments of similar maturity. The aggregate fair value of the Company's total long-term debt and obligations under capital leases was:

December 31, 2001	**$ 58,961**
December 31, 2000	72,966

(In thousands of Canadian dollars, except common shares and per share information)

17. JOINT VENTURES:

The Company's proportionate share of the assets, liabilities and results of operations of joint ventures as at and for the years ended December 31, 2001 and 2000, recorded in the consolidated financial statements of the Company, is as follows:

		2001		2000
Current assets	**$**	**8,926**	$	9,609
Long-term assets		**1,528**		1,831
Current liabilities		**3,353**		4,792
Net sales		**19,092**		19,932
Earnings before interest expense, investment income, unusual items and income taxes		**2,088**		2,558
Net earnings		**1,576**		1,624

Cash provided by (used in) operating, financing and investing activities (excluding non-cash activities) of joint ventures was as follows:

		2001		2000
Cash provided by operating activities	**$**	**2,400**	$	3,522
Cash used financing activities		**(30)**		(858)
Cash used investing activities		**(412)**		(510)

18. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). These principles conform in all material respects to those in the United States, except for the following:

Consolidated statements of earnings according to generally accepted accounting principles in the United States:

	2001	2000
Net earnings (loss) as shown in the financial statements	**$ 23,713**	$ (28,111)
Description of items having the effect of increasing (decreasing) reported income:		
Amendment of goodwill amortization (a)	**345**	345
Deferred foreign exchange (b)	**200**	197
Incentive payment (c)	**2,727**	(14,356)
Provision for restructuring (d)	**–**	(10,508)
Write-down of marketable securities (e)	**–**	(9,470)
Interest on construction in progress (f)	**1,837**	906
Amortization of interest on construction in progress (f)	**(138)**	–
Net earnings (loss) according to U.S. GAAP	**28,684**	(60,997)
Valuation reserve for "available for sale" securities	**–**	9,470
Foreign currency translation adjustment	**14,992**	2,175
Comprehensive earnings (loss) according to U.S. GAAP	**$ 43,676**	$ (49,352)
Earnings (loss) per share (in dollars) under U.S. GAAP:		
Basic	**$ 0.52**	$ (1.10)
Diluted	**0.52**	(1.10)
Weighted average shares outstanding:		
Basic	**54,860,288**	55,609,142
Diluted	**54,942,387**	55,609,142

Consolidated shareholders' equity according to U.S. GAAP:

	2001	2000
Shareholders' equity as shown in the financial statements	**$ 398,599**	$ 363,281
Description of items having the effect of increasing (decreasing) reported shareholders' equity:		
Goodwill amortization (a)	**(4,299)**	(4,644)
Deferred foreign exchange (b)	**–**	(200)
Incentive payment (c)	**(14,642)**	(17,369)
Interest on construction in progress (f)	**2,743**	906
Amortization of interest on construction in progress (f)	**(138)**	–
Shareholders' equity according to U.S. GAAP	**$ 382,263**	$ 341,974

(In thousands of Canadian dollars, except common shares and per share information)

18. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CONTINUED):

Consolidated balance sheets according to Canadian and U.S. GAAP:

	2001		2000	
	Canadian GAAP	**U.S. GAAP**	Canadian GAAP	U.S. GAAP
Capital assets	**$ 296,205**	**$ 298,810**	$ 293,737	$ 294,643
Goodwill	**6,805**	**2,506**	8,624	3,980
Other assets	**20,638**	**1,093**	25,216	2,161
Future income tax assets	**8,439**	**13,342**	7,889	13,375
Accounts payable and accrued liabilities	**243,387**	**243,387**	242,049	242,049
Future income tax liability	**17,030**	**17,030**	16,382	16,382
Shareholders' equity	**398,599**	**382,263**	363,281	341,974

(a) As part of the cost of one of the acquisitions in a prior year, the Company established a reserve to cover the anticipated costs of closing a newly acquired plant. During 1998, management decided to amend restructuring plans and not to close the plant and, as a result, a portion of the reserve was reversed into 1998 income. During 1999, management once again amended restructuring plans and, accordingly, the remaining reserve was reversed into 1999 income. Under U.S. GAAP, the reserve would have been reversed against goodwill recorded on the original acquisition. As a result, under U.S. GAAP, 2001 and 2000 goodwill amortization would have been reduced by $345, net income would have been increased by $345 in 2001 and 2000, while retained earnings and goodwill would be reduced by $4,299 (2000 - $4,644).

(b) In 1998, the long-term debt was designated a hedge of foreign investment. However, prior to this, unrealized exchange gains and losses on long-term monetary items were deferred and included as deferred foreign exchange on the balance sheet. As a result, net earnings include a charge of $334 (2000 - $328), less related income tax effects of $134 (2000 - $131). Under U.S. GAAP, the entire foreign exchange loss would have been recognized in 1998. At December 31, 2001, no unamortized deferred foreign exchange remained on the consolidated balance sheet (2000 - $334).

(c) During 2001, the Company established a deferred expense of $17,413 (2000 - $26,202, 1999 - $6,000) relating to payments to customers as an incentive to sign long-term contracts. As of December 31, 2001, $30,070 (2000 - $9,482; 1999 - $979) of these amounts had been amortized against income and $19,545 (2000 - $22,721; 1999 - $5,021) remained on the consolidated balance sheet as a deferred charge, included in other assets. Under U.S. GAAP, the full amount would have been expensed in the year paid. As a result, under U.S. GAAP, selling, general and administrative expenses would have decreased by $2,727 (2000 - increased by $17,700, 1999 - increased by $5,021), income tax expense would have increased by $449 (2000 - decreased by $3,344, 1999 - decreased by $2,008), deferred income tax asset would have decreased by $449 (2000 - increased by $3,344, 1999 - increased by $2,008), net income increased by $2,727 (2000 - reduced by $14,356, 1999 - reduced by $3,013) and retained earnings reduced by $14,642 (2000 - reduced by $17,369, 1999 - reduced by $3,013).

18. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CONTINUED):

(d) During 1999, the Company recorded a charge for unusual items relating to its European operations. The unusual item charge included a provision for restructuring of $10,508 and a write-down of carrying value of capital assets and goodwill of $20,043. The provision for restructuring consisted of severance costs incurred across all staff levels, including direct, indirect and fixed labour at the European facilities. Under U.S. GAAP, management's restructuring provision relating to these costs can only be recognized as a liability once certain criteria have been met which were not required for Canadian GAAP purposes, including the employees having been notified and severance benefits communicated to all employees. As these conditions were not met by December 31, 1999, both U.S. GAAP net income and retained earnings would have increased by $10,508. This entry would not have a related tax effect as a full valuation reserve was required. As a result, under U.S. GAAP, selling, general and administrative costs would have increased by $10,508 and net income reduced by $10,508, with no impact on retained earnings as at December 31, 2000.

(e) During 2000, the Company wrote down its marketable securities to market value, to recognize a temporary decline in value. Later in 2000, all of the securities giving rise to the write-down were sold. Under U.S. GAAP, available for sale securities are marked to market with unrealized gains and losses flowing into equity. Once the underlying security is sold, the entire realized loss is charged to income in the period of sale. Under U.S. GAAP, net income would have been lower in 2000 by $9,470. Since all marketable securities were disposed of as at December 31, 2001, there is no difference with respect to retained earnings at that date.

(f) Under U.S. GAAP, interest must be capitalized on construction in progress, whereas in Canada, such capitalization is not mandatory. The Company did not capitalize any interest in either 2000 or 2001 pursuant to Canadian GAAP. Under U.S. GAAP, 2001 interest expense would have been reduced by $3,062 (2000 - $1,510) less the related income tax effect of $1,225 (2000 - $604), capital assets would have increased $2,743 (2000 - $906), less amortization of $221 (2000 - nil), less the related income tax effect of $83 in 2001 and retained earnings would have increased by $2,605 (2000 - $906).

(g) Under U.S. GAAP, research and development costs are expensed as incurred, while in Canada, they are capitalized under certain circumstances. There is no impact on reported earnings, as the Company has not capitalized any of these expenses.

(h) Under U.S. GAAP, the Company would not be permitted to include a subtotal in the consolidated statements of earnings at the level "earnings before unusual items."

Income tax expense under U.S. GAAP for the years ended December 31, 2001 and 2000 can be analyzed as follows:

		2001		2000
Canadian income taxes	**$**	**4,150**	$	3,388
Foreign income taxes		**8,541**		(14,644)
	$	**12,691**	$	(11,256)

18. RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CONTINUED):

Recent accounting pronouncements:

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, Business Combinations, ("SFAS No. 141") and SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 was effective as of July 1, 2001 and SFAS No. 142 is effective January 1, 2002. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations. SFAS 141 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121 and, subsequently, SFAS No. 144 after its adoption. The CICA has adopted similar standards and, accordingly, there will be no U.S. - Canadian GAAP differences arising from the addition of these standards.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations ("SFAS No. 143"). SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on January 1, 2003.

In August, 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"). SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from ongoing operations. The Company is required to adopt SFAS No. 144 on January 1, 2002 on a prospective basis.

11 YEARS FINANCIAL SUMMARY

Years ended December 31,	**2001**	2000	1999	1998
INCOME STATEMENT				
Net sales	**831,723**	652,281	645,539	642,714
Sales growth in %	**28%**	1%	0%	25%
Cost of goods sold	**710,680**	548,703	481,337	487,076
Gross profit before amortization	**187,898**	161,338	222,777	213,815
Gross profit % before amortization	**23%**	25%	35%	33%
Amortization	**66,855**	57,760	58,575	58,177
Gross profit	**121,043**	103,578	164,202	155,638
Gross profit as a % of sales	**15%**	16%	25%	24%
Selling, general and administrative expenses	**81,208**	80,376	71,804	74,222
Selling, general and administrative expenses as a % of net sales	**10%**	12%	11%	12%
Goodwill amortization	**2,074**	5,063	8,746	5,185
Research and development expenses	**99**	1,700	1,565	4,490
EBITA (earnings before amortization, interest expense, investment income, unusual items and income taxes)	**104,517**	74,199	140,662	129,918
EBITA %	**13%**	11%	22%	20%
EBIT (earnings before interest expense, investment income, unusual items and income taxes)	**37,662**	16,439	82,087	71,741
EBIT %	**5%**	3%	13%	11%
Interest expense	**9,642**	18,192	16,026	16,489
Investment income	**4,404**	16,671	16,753	17,450
Unusual Items	**(3,980)**	51,676	30,551	–
Income tax expense	**12,691**	(8,647)	29,599	24,249
Net earnings	**23,713**	(28,111)	19,344	42,303
Basic EPS *	**0.43**	(0.51)	0.33	0.71
Diluted EPS *	**0.43**	(0.51)	0.32	0.70

* per share data based on 3 for 1 stock split July 1987, 2 for 1 stock split June 1993 and 2 for 1 stock split February 1998

(Stated in thousands of Canadian dollars, except per share data)

1997	1996	1995	1994	1993	1992	1991
513,260	340,718	270,081	144,771	113,519	86,124	67,766
51%	26%	87%	28%	32%	27%	48%
389,279	256,111	205,549	103,902	84,984	60,201	50,437
165,606	103,234	81,371	50,308	38,586	32,534	22,062
32%	30%	30%	35%	34%	38%	33%
41,625	18,627	16,839	9,439	10,051	6,611	4,733
123,981	84,607	64,532	40,869	28,535	25,923	17,329
24%	25%	24%	28%	25%	30%	26%
58,213	33,444	28,296	18,036	10,035	9,849	7,570
12%	10%	11%	12%	9%	12%	11%
2,928	1,257	765	–	–	–	–
2,003	2,303	1,953	1,958	1,827	3,309	876
102,462	66,230	50,357	30,314	26,724	19,376	13,882
20%	19%	19%	21%	24%	22%	20%
60,837	47,603	33,518	20,875	16,673	12,765	9,149
12%	14%	12%	14%	15%	15%	14%
8,738	3,095	2,120	–	–	–	–
10,374	3,931	3,742	2,309	1,788	2,630	1,432
–	–	–	–	–	–	–
20,339	17,248	12,149	5,187	4,941	5,611	3,382
42,134	31,191	22,991	17,997	13,520	9,784	7,199
0.74	0.65	0.51	0.41	0.31	0.23	0.19
0.73	0.63	0.49	0.40	0.31	0.22	0.19

11 YEARS COMPARATIVE BALANCE SHEET

Years ended December 31,	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
BALANCE SHEET											
Current ratio	**1.45**	1.30	1.61	1.61	2.65	3.14	1.49	2.32	2.55	2.53	4.41
Debt to equity ratio[a]	**0.84**	1.11	1.04	0.98	1.01	0.37	0.85	0.42	0.37	0.39	0.28
Debt to assets ratio[a]	**0.46**	0.53	0.51	0.49	0.50	0.27	0.46	0.29	0.27	0.28	0.22
Equity to assets ratio	**0.54**	0.47	0.49	0.51	0.50	0.73	0.54	0.71	0.73	0.72	0.78
Accounts receivable turnover[b]	**4**	3	4	5	5	5	6	7	8	8	10
Days sales in accounts receivable[b]	**103**	107	86	80	75	78	63	50	43	45	37
Inventory turnover[c]	**17**	13	12	12	13	11	13	13	12	9	9
Days sales in inventory[c]	**21**	27	31	31	29	32	27	28	30	41	41
Asset turnover[d]	**1.13**	0.87	0.78	0.79	0.71	0.73	1.09	1.06	1.04	0.89	0.86
Return on equity[e]	**6%**	n/a	5%	10%	12%	13%	19%	20%	18%	15%	15%
Return on total assets[f]	**3%**	n/a	2%	5%	7%	9%	12%	14%	13%	11%	11%

[a] consists of current and long-term liabilities including deferred income taxes

[b] two year average accounts receivable

[c] two year average inventory

[d] total assets excluding intangible assets

[e] two year average equity

[f] two year average total assets

SUMMARY OF QUARTERLY RESULTS

(Stated in thousands of Canadian dollars, except per share data)

(Year ended December 31)

Quarter	**Sales**		**Net earnings (loss)**		**Per share**	
	2001	2000	**2001**	2000	**2001**	2000
First	**$ 184,203**	$ 134,393	**$ 25**	$ 2,918	**$ 0.00**	$ 0.05
Second	**$ 185,462**	$ 124,353	**$ 1,004**	$ 3,456	**$ 0.02**	$ 0.06
Third	**$ 187,853**	$ 147,854	**$ 3,296**	$ 386	**$ 0.06**	$ 0.01
Fourth	**$ 274,205**	$ 245,681	**$ 19,388**	$ (34,871)	**$ 0.35**	$ (0.63)
Year	**$ 831,723**	$ 652,281	**$ 23,713**	$ (28,111)	**$ 0.43**	$ (0.51)

SHARE TRADING INFORMATION

(volume in thousands of shares)

Trading of Common Shares: CRW

Year ended December 31,	Quarter	High	Low	Closing	Volume
2001	**First**	**$ 3.50**	**$ 2.00**	**$ 2.75**	**7,836**
	Second	**$ 4.75**	**$ 2.50**	**$ 4.25**	**6,773**
	Third	**$ 4.55**	**$ 3.50**	**$ 3.79**	**4,793**
	Fourth	**$ 5.15**	**$ 3.06**	**$ 4.60**	**8,364**
	Year	**$ 5.15**	**$ 2.00**	**$ 4.60**	**27,765**
2000	First	$ 11.30	$ 7.55	$ 7.55	11,583
	Second	$ 10.80	$ 7.50	$ 9.40	15,807
	Third	$ 9.75	$ 4.85	$ 5.75	10,318
	Fourth	$ 6.05	$ 2.56	$ 2.85	15,051
	Year	$ 11.30	$ 2.56	$ 2.85	52,759
1999	First	$ 21.50	$ 14.00	$ 14.20	9,249
	Second	$ 14.50	$ 11.60	$ 14.30	16,067
	Third	$ 14.10	$ 11.80	$ 12.20	9,853
	Fourth	$ 13.00	$ 8.65	$ 11.75	10,238
	Year	$ 21.50	$ 8.65	$ 11.75	45,406
1998	First	$ 26.85	$ 20.80	$ 20.90	17,819
	Second	$ 23.50	$ 19.50	$ 21.50	11,297
	Third	$ 23.80	$ 15.00	$ 17.00	5,409
	Fourth	$ 19.75	$ 14.25	$ 18.60	10,519
	Year	$ 26.85	$ 14.25	$ 18.60	45,044
1997	Year	$ 29.00	$ 15.60	$ 24.50	34,656

STOCK EXCHANGE

The Toronto Stock Exchange (Symbol: CRW)

COMMON SHARES

(Outstanding at December 31, 2001)

Basic 54,836,726

CLOSING PRICE OF SHARES (December 31, 2001)

The Toronto Stock Exchange $4.60

VOLUME OF SHARES TRADED

Two years ended December 31, 2001 and 2000	**2001**	2000
The Toronto Stock Exchange	**27,765,000**	52,759,000

SHAREHOLDER INFORMATION

ADDITIONAL INFORMATION

Shareholders may contact the Company for more information or questions concerning their shares. For information on and assistance with matters such as share transfers, dividend cheques and change of address, please contact the Transfer Agent.

DIVIDEND PAYMENTS

The Company declares dividends on a quarterly basis. In March 2002, the Company declared a quarterly dividend of $0.02 per common share, payable on June 15, 2002.

DIVIDEND POLICY

Cinram's long-term strategic objective is to secure above average capital growth for its shareholders. Cinram retains most of its earnings to maximize expansion opportunities.

FORM 40F

The Annual Report on Form 40F is filed with the United States Securities and Exchange Commission. This report will be made available to shareholders, without charge, upon written request to the Secretary of Cinram, at the corporate office.

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held at 4:00 p.m. on Wednesday June 19, 2002 at the TSE Conference Centre, 130 King Street West, Toronto, Ontario, Canada M5X 1E1

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
100 University Avenue, 11th Floor
Toronto, Ontario, M5J 2Y1

SHAREHOLDERS' CALENDAR

Fiscal year end	December 31,
Fiscal quarter ends	March 31, June 30, September 30 and December 31

DIRECTORS AND OFFICERS

ISIDORE PHILOSOPHE
Director, Chairman and Chief Executive Officer

LEWIS RITCHIE, C.A.
Director, Executive Vice-President Finance and Administration, Chief Financial Officer and Secretary

JACQUES PHILOSOPHE
Director and Executive Vice-President, Operations

DAVID RUBENSTEIN
President, Cinram Americas
Vice-President, Cinram International Inc.

JAIME OVADIA
President, Cinram Latinoamericana
Vice-President, Cinram International Inc.

DAVID HOLLANDER
President, European Operations

MARCEL TUCHNER
Executive Vice-President, Manufacturing and Engineering

GARSON HOFFMAN
Vice-President, Business Development

HENRI A. ABOUTBOUL•
Director
Director, Waste Management International B.V.

LAWRENCE S. BLOOMBERG■•
Director
Advisor,
National Bank Financial

NORMAN MAY, Q.C.■
Director
Partner, Fogler, Rubinoff LLP

PETER G. WHITE■•
Director
Executive Vice President, Argus Corporation

■ Member of Audit Committee
● Member of Compensation Committee

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